

## CUSTOMER RELATIONSHIP MANAGEMENT IN BANKING SECTOR

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**Abstract:** Banks play a vital role in the socio-economic development of our country. Banks offer several facilities to enhance the standard of living of our citizens. Today customer is the king of the market. To achieve the competitive advantage, Indian banks have to focus on the customer. In modern era, each and every bank is realizing the importance of relationship with customer to survive in the competitive world. CRM is focus on creating, satisfy and retaining customer through uncompromising services. In India there is large number of public sector banks but there market position is not so good as compared to private sectors. Proper CRM strategy can be used by these banks to survive effectively in this competitive world. Life long relationship with customers is the key to success for any bank. Customer Relationship Management is very important for the growth and profitability of banks in the present age. So, in this paper I have discussed the Role of Customer Relationship Management (CRM) in the Indian banking Sector.

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### INTRODUCTION

Customer relationship management (CRM) is an approach to manage a company's interaction with current and potential customers. It uses data analysis about customers' history with a company to improve business relationships with customers, specifically focusing on customer retention and ultimately driving sales growth. CRM is defined by [Couldwell 1998] as “a combination of business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do, and what they are like”. According to Saravanakumar (2009), CRM is all about maintaining a sustainable competitive advantage by serving existing customers and attracting new customers. Today, Indian banking industry is one of the largest in the world. CRM in the banking sector is of strategic importance. CRM is a holistic process of acquiring, retaining, and growing customers. CRM is used to define the process of creating and maintaining relationships with business or customers.

#### Benefits of Customer Relationship Management

Customer relationships are becoming even more important for banks as market conditions get harder. Competition is increasing, margins are eroding, customers are becoming more demanding and the life-cycles of products and services are shortening dramatically. All these forces make it necessary for banks to intensify the relationship with their customers and offer them the services they need via the channels they prefer.

- ▶ Service provisioning throughout the entire life cycle of the corporate customer, from the initial stages to the establishment of a close, long-term relationship with profitable clients,
- ▶ Optimization of the use of bank resources, such as alternative channels of distribution (internet and home banking),
- ▶ Significant reduction in and limitation of operational costs through system automation and standardization,
- ▶ Low maintenance and expansion costs owing to the use of modern administration tools which allow bank employees to make a wide range of modifications to the system
- ▶ CRM permits businesses to leverage information from their databases to achieve customer retention and to cross-sell new products and services to existing customers.
- ▶ Companies that implement CRM make better relationships with their customers, achieve loyal customers and a substantial payback, increased revenue and reduced cost.

#### The IDIC Framework for building loyal customers in banking sector

Peppers & Rogers (1993) gave IDIC framework to explain the process of converting existing customers into loyal customers. It represents the 4 key steps in the relationship building process.

**Identify:** This step requires the bank to locate and contact a large number of its customers directly and know as much detail about them as possible. These days banks are requesting its customers to give their details such as address, contact number, e- mail id etc. under the name ‘Know Your Customer’ (KYC). Every interaction with the customer through any channel should be seen as an opportunity to learn about them and this knowledge has to be used to serve them better.

**Differentiate:** Normally, in banking sector customers are differentiated on the basis of the value they represent. The value represented is an indication of the customer’s worth to the bank- the more valuable they are, the more the bank should be interested in retaining them. Differentiation should also be done based on the needs of customers. Customers with specialized needs create opportunities for customization.

**Interact:** The purpose of interaction is to learn more about customers. It can be done through formal surveys, telephone interactions, or self- service channels like the bank website, call centers or ATMs.

**Customize:** This is the most critical step. When the customization is done on the basis of what the customer has indicated during his interactions, it helps the customer enjoy a high level of convenience, which cannot be imitated by competitors.

### Relationship Marketing Strategies in Banking

The greater the enhancement of the relationship through bonding, the more committed the customer is to the relationship and hence he/ she is less likely to switch over to competitors. Berry & Parasuraman (1991) have identified 4 levels of bonds. A bank can develop a strong bonding with its customers, by following retention marketing strategies at 4 different levels:

Level 1: Financial Bonds

Level 2: Social Bonds

Level 3: Customization Bonds

Level 4: Structural Bonds

Level 1: Financial Bonds

The financial bonds tie in the customer primarily through financial incentives. Banks normally try to retain their customers by giving loans at relatively low interest rates for customers who have been patronizing the bank over a period of time. Giving loans to farmers at low interest rates, providing the home loan customers the option of making pre- payment without any penalty charges and calculating interest on the balance amount after the pre- payment, offering gold coins at discount prices to regular customers on some special occasions etc. are some of the examples for financial incentives given by a bank to its regular customers with a view to retain them.

Level 2: Social Bonds

Bonding with customers through financial incentives are the weakest bonds, as they can be easily imitated by competing banks. At this level the bank can retain its customers for long by developing more social and friendly relations with them. What every human being likes is a friendly, caring and understanding nature. Social bonds along with financial bonds are difficult to break and are more enduring in nature.

Level 3: Customization Bonds

Technological advancements in banking like ATMs, Online banking facility, mobile banking etc. have enabled banks to customize their services the per requirements of the customer. Mass customization by using technology enables a bank offer customized services to its customers while reducing unnecessary costs.

Level 4: Structural Bonds

At this level there is a greater bonding between the customer and the bank and the relationship between the parties is characterized by shared processes and equipment and integrated data bases. Here, there is a partnering relationship between the bank and its customer.

Here, level 2 retention strategies are stronger than level 1 and level 3 strategies are stronger than levels 1 & 2 and level 4, the ultimate level retention strategies are stronger than the first 3 levels of retention strategies. As a bank progresses from level 1 to level 4 retention strategies, while retaining the previous level strategies, the relationship between the bank the customer gets strengthened and the customer is less likely to switch to competitors.

### CRM implementation

For CRM to be truly effective a bank must first decide what kind of customer information it is looking for and it must decide what it intends to do with that information. It doesn't happen by simply buying software and installing it. To ensure the proper functioning customer relationship management concept and for successfully implementation in banking sector, following requirements should be complied:

- There should be customer-focused organisation and infrastructure.
- Banks have to assess accurate picture of customer categories.
- Banks have to evaluate the lifetime value of customers.
- Banks should maximize the profitability of each customer relationship.
- Understand how to attract and keep the best customers.
- Maximise ROI on marketing campaigns

### Challenges Faced By Banks in Successful Implementation of CRM

- The difficulty in evaluation of customer's perception accurately.
- The need to develop multichannel offering.
- The heavy load of disconnected legacy systems and different databases that store client financial data.
- The cost and complexity of meeting strict government regulations and client security and privacy requirements.
- The pressure on margins and growth prospects from increased competition.
- The costs linked with retaining customers and developing customer loyalty.

Although CRM can help banking institutions efficiently manage their customers, many banks fail to meld the concept into the prevailing work culture. But the high incidence of CRM failure has very little to do with the CRM concept itself. Usually it's a case of the banks failing to pay attention to customer data they already have.

## Types of Customer Relationship Management

### Analytical CRM

Analytical CRM helps bank to analyze entire business and its processes efficiently. Whether it is interpreting, extracting, processing, storing or reporting customer data, this type of CRM software helps banks to analyze their business whenever needed.

### Operational CRM

Any typical business functions that bank perform come under this type of CRM. All operational activities right from managing orders, creating invoice/bills, sales & marketing to customer services, operational CRM helps banks or other organisations to perform all these tasks more efficiently.

### Collaborative CRM

If banks are facing problems in communicating, coordinating and collaborating deals between vendors and customers, this is when bank must invest in collaborative CRM to manage their business activities.

### Importance of CRM in Banking Sector

- Increase in competition level
- Change in customer expectations
- Well informed customers
- Improve Customer retention
- Globalisation of services
- Gaining sales upliftment
- Acquisition of new customers
- Better distribution and channel management
- Operational inefficiency removal

## REVIEW OF LITERATURE

**Bajaj (2000)** He analyzed related issues due to adoption of CRM in banking. He explained ecommerce, payment system, smart card, electronic check etc. He explained that IT has made for big CD's to raise money in capital market than from banks. He conclude that electronic payment system are emerging and getting acceptance in market place as it help to cut cost by producing check ways of delivering products to customers and to see it that whether technology create new opportunities for banks or they become extinct .

**Manickaraj & Hemalatha (2001)** in this article e-banking success identifies that in new digital market place banks and financial institutes are not lagging behind and start providing services electronically to internet. These services lower transaction cost & empowers customers & enhance the value to banking relationship. They discussed also services through banking, their benefits to customers, banks & limitations.

**Kassing (2001)**, have expressed Bankers who lose good customers month in and month out may likewise feel this sense of futility. Those who respond by boosting advertising budgets, (offering low-cost and low-profitability products as a lure) may find they increase their marketing expenses only to obtain unprofitable customers. In addition, other worthwhile prospects or customers are identified in the hope of developing profitable relationships.

**Garikaparthi (2002)**, has concluded that in the present scenario of globalization and liberalization, marketing has undergone a metamorphic change to cope with increased competitiveness, changing needs of customers, continuous product up gradation due to change in technology, changing market trends and many more, because of these continuous changes, the marketing efforts have also slowly shifted from mass marketing to interactive marketing and finally to today's relationship marketing.

**Mohamed and Sagadevan (2005)**, has expressed his view that Managing relationship with customer. For a successful implementation, of CRM there must be a common sense that the implementation will affect all parts of the company and that there might be server changes to get positive results. Due to that the project must be supported by the management from the very beginning. In the words of

**Patnaik and Chhatoi (2006)**, Customer Services will be better understood if we define it from the customer's angle. Customer service is the perception of a customer regarding the services he gets from his bank. It is found that retaining customer is often cheaper than finding a new customer. Customer is viewed as a long term relationship.

**Dutta et al (2009)**, the statistical analysis further reveals that there exists a gap between the customer expectations and perception in the banking sector. The expectations of Bank customer are higher than their perception. This gap varies cross the banking sector with public sector banks showing the widest gap and foreign banks showing a narrow gap. Factor analysis further showed that tangible, assurance, empathy and reliability dimensions are the explanatory variables predicting customers 'satisfaction in India. ATM machines in convenient places and tele - banking and internet banking facility. The findings further show that public sector banks are neutral about the quality services offered.

**Selvan V et al (2010)**, it is observed from the results that awareness level of college level education group respondents is high while the same is the case for the respondents having income of above Rs 10,000 and

in the case of satisfaction level of respondents; the difference is significant between small and large size families.

**Dixit et al (2010)**, the bank management may classify the market strategy on age group basis. They obtain their opinion to enable imparting necessary guidance for use of online banking transactions. Interestingly, the study reveals that online banking has a very promising future, as emphasized by the majority (84%) of respondents.

**Singh and Kumar (2011)** indicated that people term CRM as technology based initiative, but the fact is that it is an enterprise wide activity which uses technology to facilitated various functions sales, marketing, service etc. and CRM initiative starts with identification of customers with the objective of differentiating from customer to customer and he further mentions that it is not the products or services that please the customers, but the right attitude of handling them and building a closer relationship with them. The bank with a huge number of customers with close bonding would enjoy higher revenues and profitability.

**Kumar (2011)** had mentioned that, customer relationship management is the buzzword in the Indian market place has rendered undertaking customer relationship management, as an imperative than just an optional feature and now it has been recognized as one of the major tools for enhancing customer loyalty and in the process reducing customer defections to competing firms. Customer relationship management practices leave a lasting impact on their customer relationships in this era of competition, there is a need.

**Metal (2011)**, researcher have explored the crucial factors responsible to achieve the customer base of the Indian scheduled commercial banks by assessing the extent of utilization of banks services by their customers while ascertaining the customer satisfaction through structural equation model (SCM). The study revealed that there are vast opportunities as well as challenges for Value Added Services provided by banks in India and that due to technological innovations and significant change in demographic profile of customers , there is huge market potential lying ahead. It is further revealed that the awareness level of Value Added Services is restricted to only a certain section of the society.

### OBJECTIVE OF THE STUDY

- To examine the customer relationship in the banking sector.

### RESEARCH METHODOLOGY

**Research design:** This study is descriptive in nature.

**Questionnaire:** The researcher used the questionnaire to collect data. The questionnaire was divided into two parts 1) About banking services 2) Accounts and deposits of the banks facilities

**Primary data:** Primary data will be collected for analyzing the information from customers of bank. To attain the above objectives and for getting firsthand information knowledge of CRM in banking by using a pre-tested and pre-coded schedule by personal interview and questionnaire with the account holders.

**Secondary Data:** Data collection was done through published and unpublished articles, reference books, journals, conference proceedings, business dailies, reports, magazines; newsletters published by banks time to time and published documents & websites.

**Sample Size:** The sample was collected from 200 customers in both public and private banks.

**Sampling technique:** random sampling is used for collecting the primary data.

**Data analysis tools:** SPSS is used to analysis the primary data

**Methods of calculating data:** T-test and ANOVA is used

### DATA ANALYSIS

**TABLE1.1 Customer Satisfaction with Banking Services**

Variables	Banking Sector	Mean	S.D	t-test result	
				t-value	p-value
ATM cards	Private	4.80	1.30	0.078	0.780(NS)
	Public	4.76	1.40		
Demand Draft	private	4.56	1.45	0.952	0.330(NS)
	public	4.70	1.41		
Cheque book	private	4.68	1.35	0.575	0.449(NS)
	public	4.57	1.43		

Table 1.1 explains the customer opinion towards the banking services based on banking sector. Mean and standard deviation values are calculated. Private Banks are highly rated towards ATM cards offering (4.80) and cheque book (4.68).But, public banks are highly rated towards demand draft offering (4.70).The standard deviation values indicates the customer satisfaction is not varied among the public and private banks. Hence, it is hypothesized as follow.

Ho: There is no difference of opinion towards customer satisfaction based on banking sector.

To test the above stated hypothesis, independent sample t-test is executed. The calculated p-values are found to be non-significant. Hence, the stated hypothesis is accepted. It is found that there is no difference of opinion towards customer satisfaction level among the private and public banks.

**TABLE 1.2 Customer Satisfaction Based on Accounts and Deposits of the Bank**

Variables	Banking Sector	Mean	S.D	ANOVA Result		Post Hog Test
				f-value	p-value	
Saving Account	private	4.64	1.20	7.078	0.001*	1,2Vs 3
	public	4.85	1.39			
Current Account	private	4.60	0.43	7.031	0.001*	1,2Vs 3
	public	4.46	1.36			
Fixed Deposits Account	private	4.50	1.44	6.564	0.001*	1,2Vs 3
	public	4.56	0.21			

Table 1.2 explains the customer opinion towards account and deposits based on banking sector. Private banks are highly rated towards the saving account (4.64), current account (4.60) and fixed deposit account (4.50) when compared to public banks. Further, standard deviation values indicated that the customer satisfaction level is varied as much. So, it is hypothesized as follow.

Ho: customer opinion towards customer satisfaction is not differed based on the banking sector.

One way analysis of variance is applied to test the above stated hypothesis. The corresponding p-values are significant at one and five percent level. Hence, hypothesis is rejected. Further, bonferroni post hoc test is applied. It is found that private bank customers are significantly varied with public banks customer. It is found that the customer opinion customer satisfaction is varied based on the banking sector. It is found that private banks are having higher level of customer satisfaction than public banks.

### CONCLUSION

To survive in the competitive world, Indian banking sector is realizing the importance customer relationship management to create the customer loyalty. In this paper, I have discussed the role of CRM in Indian Bank Sector. In brief I would like to conclude that customer relationship management is one of the biggest challenges for the Indian banking sector especially for the public sector banking sector, because the customer satisfaction level in public sector banks are not satisfactory as compared to private sector banks. Managing the customer is what CRM is all about. Just awareness of CRM is not sufficient, proper implementation of CRM is must. At the end I want to suggest public banks to implement CRM to retain the old customers. For acquiring new customers public sectors banks must have to provide quality service at less processing time and cost.

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